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SUBJECT: GOP FORMS PRIVITIZATION PLAN WITH OVERLY AMBITIOUS
TIMEFRAMES

¶1. (SBU) Summary. Faced with a mounting financial crunch, Syed Naveed Qamar, Federal Minister for Privatization and Investment as well as Finance, recently chaired a meeting to finalize an overly ambitious schedule for privatization of a few low level public sector entities during September-October 2008. Earlier the GOP put on hold a number of important privatization deals, which illustrates the current government's lack of commitment to the privatization process. End Summary.

¶2. (SBU) The current financial crunch encouraged the GOP to revisit its privatization policy. Minister Qamar directed the Privatization Commission (PC) to expedite the sale of various public sector entities. Noting that all relevant rules and regulations should be strictly observed and the privatization process should be carried out in an open, fair and transparent manner, Qamar instructed the PC to begin the valuation process for the following entities:

¶3. (SBU) Small and Medium Enterprise (SME) Bank: SME Bank is a public limited company which has approximately 630 permanent and contractual employees and is operating through a diverse network of 27 branches. The Privatization Commission has identified pre-qualified bidders for SME Bank and September is targeted for completion of this privatization.

¶4. (SBU) National Power Construction Company (NPCC): NPCC has paid up capital of Rs 20 million. It is a public sector company under the Federal Ministry of Water and Power. The Privatization Commission has identified pre-qualified bidders for the NPCC.

¶5. (SBU) Kot Addu Power Company (KAPCO): Qamar specifically directed the PC to ensure timely completion of the listing process, regulatory approvals and international marketing for floating the global depository receipts of KAPCO in October 2008. Initially privatized in 1996, KAPCO is a large independent power producer with a power generation capacity of 1600 mega-watts. The government transferred management control and thirty six percent of the total shares to International Power. The government now holds 64 percent of KAPCO's total 880 million issued shares.

¶6. (SBU) Hazara Phosphate Fertilizers Limited (HPFL): Bidding for the privatization of a 90 percent share in HPFL with a targeted management control transfer during September 2008 for an authorized share value of Rs. 200 million.

¶7. (SBU) Heavy Electrical Complex (HEC): Qamar directed expeditious processing of Heavy Electrical Complex in order to complete this transaction in September 2008. HEC is one of the industrial units of the State Engineering Corporation engaged in the manufacturing of

power transformers and with a total annual capacity of 3000 megawatts (MW) per year. In addition, the HEC undertakes repair and refurbishment of old and damaged power transformers up to 500 KW.

18. (SBU) Jamshoro Power Company (JP): On August 27, the PC also decided to invite fresh Expressions of Interests for the privatization of Jamshoro Power Company (JP) located in Sindh Province. JP was established as a result of the unbundling of Pakistan Water and Power Development Authority (WAPDA) and was organized to take over all the properties, rights, assets, obligations and liabilities of three thermal power stations namely Jamshoro, Kotri and Lakhra with a total nameplate capacity of 1204 MW. The GOP intends to sell a majority 51 percent interest in JP including management control to a strategic investor or a consortium while maintaining 49 percent of the equity. JP facilities are located near Hyderabad with key connections to the national grid for supply to Karachi.

19. (SBU) Tourism Sector: The sale of 26 motels and restaurants owned and operated throughout Pakistan by the Pakistan Tourism Development Corporation was also directed.

110. (SBU) The Privatization Commission Ordinance of 2000 mandates that 10 percent of all shares of the state owned enterprises slated for privatization should be transferred to its workers. While addressing the meeting Qamar said that the government was in the process of making the privatization process as "pro-worker and pro-people as possible" and directed the PC to accelerate the transfer of shares to employees for the above mentioned enterprises.

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111. (SBU) The ruling government has put on hold a number of privatization deals which were previously authorized. A year ago the Musharraf government decided to offload non-strategic shares of the National Bank of Pakistan (NBP) in the international stock market through global depository receipt; this deal was stopped by the now ruling government. Privatization Ministry sources told ECON that since the Government largely conducts its financial transactions through NBP the present Government wanted to rethink strategic advantages of privatizing any part of the National Bank. The Finance Ministry was also negotiating the block sale of Habib Bank shares, which was also shelved.

112. (SBU) On August 27, the Privatization Board meeting chaired by Qamar decided that the financial advisor for the Oil and Gas Development Corporation Limited (OGDCL) should work out all the options for privatization of OGDCL, noting that analysis is needed on whether a sale of shares, a strategic sale with management control or an assets sale, including Qadirpur Gas field, on fast track basis would be the best method. The previous government planned for a strategic sale of 51 percent of shares along with management control of OGDCL. J.P Morgan, Barclay and ABN Amro Bank were appointed as lead managers for floating an exchangeable bond of OGDCL shares, however this bond was also put on hold by the new Government. A final determination on privatization will now be decided after the financial advisory consortium led by Merrill Lynch International and KASB Securities submits recommendations.

113. (SBU) Comment. The GOP Finance Minister is trying to revive the stalled privatization process however there does not seem to be an actual plan for how to move forward with such efforts, particularly with such an ambitious timeframe. With the exception of OGDCL, the companies nominated for privatization are not big ticket privatization items. The GOP still has not taken any decision to privatize some obvious choices such as Pakistan State Oil Company, Pakistan Petroleum Limited or to float the global depository receipts of National Bank of Pakistan or Oil and Gas Development Company. As investor confidence has ebbed and the rupee has depreciated the value and price of state owned enterprises has been negatively impacted. Post has learned that some members of the GOP leadership are rumored to be advocating for postponing privatization efforts until the rupee appreciates. While specifics on privatization plans are very difficult to obtain, Post continues to track down details to sort the myths from possible realities. End

Comment.

PATTERSON